

# NEIGHBORHOOD STABILIZATION PROGRAM

Title III, Section 2301 of  
the Housing and  
Economic Recovery Act  
of 2008 (HR3221)

# Housing and Economic Recovery Act

- Passed July 30, 2008.
- Provide emergency assistance for the redevelopment of abandoned and foreclosed homes.
- Neighborhood Stabilization Program funded through a special allocation to the “CDBG” program.
- Federal Register Regulation September 29, 2008.

# ELIGIBLE ACTIVITIES

- Establish financing mechanisms for purchase and redevelopment of foreclosed homes and residential properties, including soft-second, loan loss reserves, and shared-equity loans for LMMI homebuyers;
- Purchase and rehabilitate homes and residential properties that have been abandoned or foreclosed, in order to sell, rent or redevelop such homes and properties;
- Establish land banks for homes that have been foreclosed;
- Demolish blighted structures; and
- Redevelop demolished or vacant properties when necessary.

# HUD'S NATIONAL ALLOCATION FORMULA

## **Allocation to States and Local Governments with Greatest Need**

- Number and percentage of home foreclosures in each state or unit of local government;
- Number and percentage of homes financed by a subprime mortgage related loans in each state or local government;
- Number and percentage of homes in default or delinquency in each state or unit of local government;
- Abandonment Risk.

# HUD'S NATIONAL ALLOCATION FORMULA

## Data Sources for National Formula

- Mortgage Bankers Association National Delinquency Survey (MBA-NDS);
- Census Bureau number of owner-occupied mortgages in each state from American Community Survey (ACS);
- Public data from Home Mortgage Disclosure Act (HMDA);
- Public data from Office of Federal Housing Enterprise Oversight (OFHEO);
- Public Data from Labor Department on rate of unemployment at city and county level;
- U.S. Post Office Vacancy Data

## HUD'S NATIONAL ALLOCATION FORMULA

- Allocations:
- Colorado State Program \$34,013,566
- Adams County \$ 4,600,211
- Aurora \$ 4,474,097
- Colorado Springs \$ 3,904,989
- Denver \$ 6,060,170
- TOTAL TO STATE OF COLORADO:  
\$53,053,033

# HUD'S NATIONAL ALLOCATION FORMULA

- Not all CDBG entitlement areas received an allocation;
- If the formula allocation provided 2 million dollars or less for a jurisdiction, then those funds were awarded to the state.
- Funds will be recaptured from jurisdictions that do not submit an Action Plan (will go to State);
- States and locals have 18 months to “use” funds;
- Any national recapture will go to the 10 highest need states. Colorado is rated 19<sup>th</sup>.

# Key Components of the Neighborhood Stabilization Program

- Action Plan development.
- Identification of the greatest need within the State.
- Identification of activities.
- Develop a specific contract for the use of these funds since the Act sets forth different rules than the traditional CDBG program.
- Reporting and Fund Draws.
- Monitor compliance and the use of recycled funds.



# DIVISION OF HOUSING ACTION PLAN

- Flexible document based on statute.
- Identify the areas of greatest need – State must give “priority emphasis and consideration” to these areas.
- Identify the specific activities and uses of the funds to address foreclosed and abandoned properties.
- Estimate the amount of funds for each activity.

# DIVISION OF HOUSING ACTION PLAN

- Provide the name and location of entity carrying out the activity and the expected start date.
- Define who will benefit and set performance measures
- Define various terms based on State Law (blighted structure, affordable rents etc.)
- Action must be posted to our website by November 5, 2008.

## Program Specific Requirements

- The existing State CDBG program allows only non-entitlement local governments to be a direct recipient of the State funds.
- The NSP allows the State to fund Non-profits, Housing Authorities, Housing Finance Authorities, Indian Tribes and local government Entitlement areas.

# Program Specific Requirements

- NSP funds must be expended within 18 months of receipt.
- HUD is allowing a 5 year reinvestment period. This period will end July 30, 2013.
- Properties that are purchased cannot be held longer than 10 years (land banking).
- Families purchasing the properties must undergo a minimum of 8 hours of homeownership counseling (HUD approved).

## Program Specific Requirements

- 100% of all funds shall be used to serve families whose income does not exceed **120 percent of area median income**; and
- 25% of the funds shall be used to serve families whose income does not exceed **50 percent of area median income**.
- A new CDBG National Objective is defined to benefit “**Low - moderate and middle income**” families.
- If the State provides funds to an Entitlement than the Entitlements AMI levels apply and not the balance of State.

## Program Specific Requirements

- The State must establish Rehabilitation Standards (minimum of HQS and local code).
- HUD strongly encourages green building and energy efficiency improvements in all NSP activities and long term affordability.

## Program Specific Requirements

- If an abandoned or foreclosed home is purchased or redeveloped and sold to an individual as a primary residence – **the sale price of the home shall be equal to or less than the cost to acquire and redevelop the home.**
- The purchase price of the home can include closing costs.
- HUD will not allow costs for; boarding up, lawn mowing or costs to maintaining the property in static condition.

## Program Specific Requirements

- Documentation must be maintained on the purchase and sale amounts of each property and the sources and uses of funds for each activity.
- Appraisals are required on all acquisitions using NSP funds, this includes the purchase of foreclosed/abandoned homes, residential properties and voluntary acquisitions.
- Foreclosed homes shall be purchased at a discount of at least 5% from the current market-appraised value. The appraisal will be used to determine the purchase discount.
- The average discount during the 18 month period shall be at least 15%.



## Program Specific Requirements

- NSP recipients may not transfer funds to a third party to finance and acquisition of properties from itself.
- FHA properties are eligible for redevelopment and grantees are encouraged to include FHA properties in their redevelopment plans.
- Eminent domain is allowed, but HUD cautions grantees that all NSP assisted property acquisitions must be voluntary.

## Program Specific Requirements

- Recipients of these funds will be provided administrative fees and reasonable developer fees to operate the NSP.
- All other funds must be recycled back into the program for a period of five years. After this time period, all funds must be returned to the Federal Treasury.

# Program Specific Requirements

- LBP rules apply on all units built prior to 1978.
- Davis Bacon applies on structures with 4 or more units.
- URA applies on structures with 4 or more units.
- Environmental Certification must be done (Exemption of Categorically Excluded Activities).
- Affirmative Action Plan – to further fair housing
- Citizen Participation Plan (Consolidated Plan can be used if your community does not have one, public notice must be given).
- Section 3.

# Reporting/Fund Draws and Monitoring

- Disaster Recovery Grant Reporting System - Grantees will be required to report on the used of NSP funds through this online system.
- Grantees must post NSP reports on their own websites for public viewing.
- Grantee will be required to submit a quarterly report and report monthly on NSP obligations and expenditures.
- Voice Response System (VRS).
- State or contracted staff will monitor and ensure compliance of all Federal and State requirements.

# NSP Timeframe

- Submit an Action Plan to HUD by December 1, 2008
- Action Plan needs to be posted on our website for public comment by November 5<sup>th</sup>. Plan has to be approved by HUD.
- CDOH needs to identify in this plan the types of activities we intend to fund.
- Intent to apply “applications” must be received by October 30<sup>th</sup>.
- Funds must be awarded and under contract within 18 months.
- Hire additional staff on contract to assist in the implementation
  - State hiring freeze as of Oct. 1, 2008.